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HONG KONG'S 1997 TRANSITION

Issue

China will be the key to the nature of the 1997 transition; British actions and Hong Kong internal developments can have some affect on the outcome but will not be decisive. The critical questions will be how the Chinese economy fares, whether the succession to Deng Xiaoping proceeds smoothly, and how well China's leadership can handle the social and political problems it confronts. The discussion below assumes that the succession proceeds without major upheavals or violence, and that the Chinese economy continues to enjoy overall strong growth, despite occasional slowdowns.

Background

Political and social affairs. Despite its promise to dismantle the government structure it will inherit from the British, the Chinese authorities are anxious to preserve stability and continuity in Hong Kong--primarily because of Hong Kong's immense importance to the economy but also to demonstrate to Taiwan that China can manage a capitalist system and to protect Beijing's international stature. Therefore, Beijing will probably reconstitute a very similar governmental system, especially on the executive side; specific plans are due to be announced in 1996, according to press reports, although Beijing has pledged to preserve Hong Kong's social and economic system after 1997.

Beijing will establish legislative bodies, probably patterned after the National People's Congress and the local People's Congresses in China. These will have advisory and limited legislative and supervisory powers but will be in fact subordinate to the executive's authority. China has often pointed out, in fact, that throughout most of the colonial period Hong Kong was dominated by a very strong executive, and Beijing has said that it only wants to continue that successful system.

The judiciary will be formally independent, but Beijing's ability to hand-pick top justices will probably assure that, at least over time, the judicial check on executive authority will erode. Many in Hong Kong see the threat to the rule of law as the greatest danger under Communist rule--despite lacking democratic rights to elect leaders, Hong Kongers have long enjoyed strong civil rights and an independent, even aggressive, judiciary. Many residents and observers also expect that corruption, including of the courts and police, will follow the party to Hong Kong.

There will probably not be serious disorder or massive emigration in 1997. Most Hong Kongers with the ability to do so have already arranged to acquire foreign residency permits through temporary residence abroad or by placing a relative overseas. Emigration may increase somewhat as 1997 approaches--it peaked at around 65,000 per year in 1989-92 and has declined somewhat since--but this will depend on economic as much as political considerations.

The transition may not be so benign for some sectors and individuals, however. Democracy activists, especially those who in the past called for a change of government in Beijing, may face serious trouble--Beijing has made it clear that it regards these people as disloyal, although it is not clear what specific actions it plans. Similarly China has already brought pressure against

some journalists and news organizations, and self-censorship has already begun to creep into Hong Kong journalism.

The Economy: Hong Kong investment--about two-thirds of foreign investment in China--and expertise are extremely important to China's economic development. Hong Kong residents may exaggerate the clout this gives Hong Kong--State Council Hong Kong and Macao Affairs Office Director Lu Ping publicly warned the city during his visit in May that its economic value would not protect it if it became a political problem--but it is clear that Beijing wants to preserve Hong Kong's economic vitality and understands, at least in general, that this means preserving its economic system.

The threat to Hong Kong's future as an economic dynamo comes more from miscalculations by Beijing, or from its inability to deal with problems such as widespread political corruption than from deliberate policy changes. That said, it is likely that any downturn would be a gradual one. Hong Kong has great infrastructural and human resources, and it will probably continue to be one of the region's star economic performers for years after the transition.

Alternate possibilities: If the succession plunges China into disorder, or if the Chinese economy is in a serious slump, Beijing will be quick to take a hard line toward any dissent or political opposition in Hong Kong. Severe economic difficulties will probably make it difficult for Beijing to resist milking Hong Kong as a cash cow, which could have serious implications for the city--foreign businesses would probably begin to move elsewhere, and much Hong Kong financial capital is liquid. If the succession goes very well, the economy is healthy, and the new Chinese leadership is willing to countenance political change, then by the same token the transition could go even more smoothly. Hong Kong's economy will prosper, and even the political and social problems of the transition, such as curtailment of press freedom, will be reduced.